R.J. Reynolds

Tobacco Company

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TO KAM'S and DM'S,

RE COST SHARING OF FIXTURES

As you are all aware, we must continually be looking at our business from an investment spending perspective. For example, if we wish to investment spend in a particular chain and/or retail account we need to analyze what would be our return on investment for a particular merchandiser(s) and when would we hit the break even point. This thought process has been displayed by Region personal throughout the last year and we continue to get better at this process!

We are seriously looking at the concept of requiring retailers and/or chain personal to sign an agreement which basically states that if a particular merchandiser is placed by RJR, it requires the retailer to maintain the specific fixture for a given time period. If this requirement (specified length of time) is not satisfied, then the retailer agrees to pay a portion if not the total cost of the fixture(s). This basically guarantees RJR an opportunity for a reasonable return of investment, furthermore it allows RJR to recapture a portion if not the total cost of the fixture(s). In addition, this approach instills a thought process in the retailer's mind that if they choose to replace our fixture with a competitive fixture, a price tag will be associated with that decision.

We believe this will be an effective approach to ensure we get a reasonable return on our investments at retail, and as a result, we would like to advocate the following as it relates to overhead installations:

Prior to agreeing to place an overhead in a retail location, we must communicate to the retailer that an overhead IV (8') costs RJR approximately $1,300.00, furthermore, we will be willing to supply an overhead to the retailer (if it meets our business requirements) if the retailer agrees to leave the fixture up for at least two years. In the event that the retailer replaces our overhead prior to the end of the two year time period, we will ask the retailer to pay us for half of the cost of the overhead.

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Source: https://www.industrydocuments.ucsf.edu/docs/ksgn0000

We realize that we do not have any formal written agreement that we could reference to get the retailer to pay should they not meet the time requirements specified. However, this approach provokes a thought process with our sales reps and also gets some form of commitment and buy-in from the retailer. Therefore, we would like each of you to communicate this thought process to your direct reports and encourage them to utilize it. Keep in mind that there are huge benefits from taking this approach and it will help us all better utilize our fixture resources.

The reality is that it is highly probable that the Company will be setting some type of cost sharing and/or fixture requirements in the near future. We are only advocating getting a jump on this process in the Buffalo Region!!!

Should you have any questions, please contact me.

Sincerely,

Stephen

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#1610
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D. DeRose

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